# LEGISLATIVE SERVICES AGENCY
## OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
http://www.in.gov/legislative

## FISCAL IMPACT STATEMENT

**LS 6477**
**BILL NUMBER:** SB 112

**NOTE PREPARED:** Dec 26, 2013
**BILL AMENDED:**

**SUBJECT:** Industrial Recovery Tax Credits.

**FIRST AUTHOR:** Sen. Leising
**FIRST SPONSOR:**

**BILL STATUS:** As Introduced

**FUNDS AFFECTED:** X **GENERAL**
**DEDICATED**
**FEDERAL**

**IMPACT:** State

**Summary of Legislation:** This bill authorizes a shareholder, partner, or member of a pass through entity to claim the Industrial Recovery Tax Credit (IRTC).

**Effective Date:** January 1, 2014 (retroactive).

**Explanation of State Expenditures:** *Department of State Revenue (DOR):* The DOR would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to incorporate the modifications to the tax credit. The DOR's current level of resources should be sufficient to implement these changes.

**Explanation of State Revenues:** Currently, if a pass through entity is awarded an IRTC and they do not have a state income tax liability, there is no mechanism to allow a shareholder, partner, or a member of the pass through entity to claim the credit. This bill provides the authorization for a shareholder, partner, or member of a pass through entity to claim the IRTC. The modification goes into effect in tax year 2014. The fiscal impact will likely begin in FY 2015, but could begin in FY 2014 if taxpayers adjust their quarterly estimated payments.

The bill expands the number of potential credit recipients and increases the likelihood that taxpayers will claim the full amount of IRTC authorized by the IEDC. The IEDC approved a total of $3.5 M in ITRC in 2013. Those investments represent about 0.7% of the average annual fixed structural investments by the Indiana manufacturing and warehousing businesses. If the change would allow the ITRC to be used for 1% of the estimated average annual fixed structural investments by manufacturing and warehousing businesses in Indiana, it could increase the IRTC by an estimated additional $1.6 M a year beginning in FY 2015. The actual revenue loss from the modification of this credit will largely depend on the IEDC's approval process, and each recipient's remaining state income tax liability after the application of other exemptions, deductions, and credits.

*Additional Information-* The Industrial Recovery Tax Credit is based on a taxpayer's qualified investment in a vacant industrial facility located in a designated industrial recovery site. The facility must have been placed in service at least 15 years ago, and at least 75% of the facility must not be used to carry on production, manufacturing, assembly, processing, refining, finishing, or warehousing of tangible property. The IEDC must approve applications and plans for rehabilitation in order to receive this tax credit. The amount of the credit is equal to the qualified investment made during the taxable year, multiplied by one of the applicable percentages below:

(1) 15% for a plant located on an industrial recovery site that was placed in service between 15 and 30 years ago;
(2) 20% for a plant located on an industrial recovery site that was placed in service between 30 and 40 years ago; or
(3) 25% for a plant located on an industrial recovery site that was placed in service at least 40 years ago.

The tax credit is nonrefundable, but unused credits may be carried forward. Unused credits may not be carried back. The tax credit may be applied against individual or corporate AGI Tax, Financial Institutions Tax, and Insurance Premiums Tax liabilities.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:**

**State Agencies Affected:** Department of State Revenue.

**Local Agencies Affected:**

**Information Sources:** LSA Income Tax Database; Eric Shields, Policy Director, IEDC, 234-3997; Bureau of Economic Analysis, *Table 5.4.5. Private Fixed Investment in Structures by Type,* August 7, 2013; Bureau of Economic Analysis, *Table 5.3.5. Private Fixed Investment by Type*, December 5, 2013; Bureau of Economic Analysis, *GDP by state- Indiana*, June 6, 2013.

**Fiscal Analyst:** Heath Holloway, 232-9867.